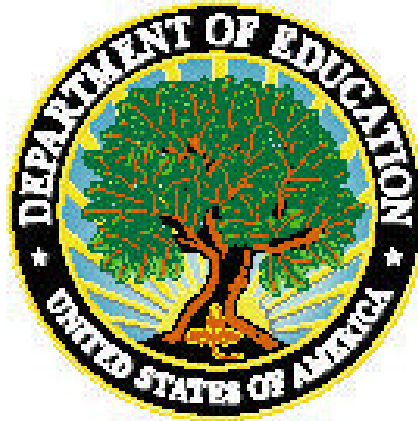


SFA Modernization Partner Project LEGACY CONTRACT TRANSITION PLAN

Debt Collection Services (DCS)



Part 1 System Write-up

Debt Collection Services (DCS)

CHANNEL:	Students
BUSINESS MANAGER:	Jack Reynolds
COTR: Freda Hopper, Shannon Carter	
CONTRACTOR:	17 Contracts (see list below)
CONTRACT NUMBER:	17 Contracts (see list below)
CONTRACT AWARD DATE:	17 Contracts (see list below)
CONTRACT EXPIRATION DATE:	17 Contracts (see list below)
(Note – Contracts expire September 30, 2001 – plan is to use GSA Financial Advisory Schedules (5.6 services (SINS) in next Acquisition).	
ANNUAL CONTRACT COSTS:	Total for all 17 contracts - \$16 million

DCS uses the FFEL (Federal Family Education Loans) System to compile and analyze its data. This data is received electronically from lenders, GA's and collection agencies. All lenders, GA's and collection agencies have access to the system. The Loan portfolio was evaluated last year by a Wall Street Firm at 3 cents on the dollar. Direct Loan Servicing and lenders & GA's handle loans from due date through default date (360 days past due).

DCS FUNCTIONS

Default Collections:

Loan default process:

- **FFEL Loans**

Loans originate with lenders who maintain the servicing of the loan until it goes into default (270 days past due) at which time they turn the loan over to a GA (at that point the lender is out of the servicing of that loan). There are 37 GA's which then try to collect on the loan. Certain proscribed procedures (letters, official notification, etc. are required to be performed by the GA's in their attempts to collect on these loans (90 days after receipt from lender). (Note – Default Rates by lender and GA are maintained by PEPS). When the GA has determined that it cannot collect on a loan (no more than 4 years after it first goes into default), that loan is turned over to DCS for servicing. The GA is "made whole" by Dept. of Education at that time. DCS then assigns these loans to a collection agency. The collection agencies are rated 3 times per year (note - each 4-month period rating is independent of prior ratings). The assignment of loan to agencies is dependent on this ranking with those more highly rated getting a higher number of loans to service. The assigning is loan is done randomly using a borrower's SSN. The collection agencies then have 9 months to work the loan before it can be returned to DCS for reassignment (note- a collection agency is never reassigned a loan which it returned to DCS). The collection agencies have certain proscribed procedures to perform during that 9-month period – e.g. – "skip tracing, letters, administrative wage garnishment, etc.). DCS also performs certain procedures for collection including, Administrative Resolutions, IRS notification, etc.).

- Direct Loans

Loans are originated with DLO (Direct Loan Origination) and serviced from time of disbursement through default by DLSS (Direct Loan Service System). The loans are considered in default at 270 days past due, however the DLSS continues to service these loans for an additional 90 days (similar to turnover to GA for FFEL loans) before they are turned over to DCS for servicing. The procedure for turnover to collection agencies is the same as for FFEL loans —described above).

There are currently about 3 million loans in default with an outstanding balance due of approximately \$9.7 billion. During FY99 DCS collected approximately \$2 billion in defaulted loans (note – about ½ (\$1 billion) was recovered through IRS offsets).

There are 17 contracts with collection agencies totaling about \$16 million per year. The cost is approximately 18 cents for each recovery dollar by collection agencies. The collection agencies are not compensated for collections made through IRS offsets (note- the criteria for notification to IRS is that no payment has been received in the past 9 months).

The contracts with collection agencies are as follows:

<u>#</u>	<u>Collection Agency</u>	<u>Contract #</u>	<u>Contract Expiration Date</u>
1.	OSI/AM Miller	PM97053001	Sept. 30, 2001
2.	Equifax	PM97053002	Sept. 30, 2001
3.	Aman	PM97053003	Sept. 30, 2001
4.	Diversified	PM97053004	Sept. 30, 2001
5.	Unger & Associates	PM97053005	Sept. 30, 2001
6.	Allied	PM97053006	Sept. 30, 2001
7.	ECS	PM97053007	Sept. 30, 2001
8.	Pioneer Credit	PM97053008	Sept. 30, 2001
9.	NCO Financial	PM97053009	Sept. 30, 2001
10.	Financial Asset	PM97053010	Sept. 30, 2001
11.	Van RU	PM97053011	Sept. 30, 2001
12.	General Revenue	PM97053012	Sept. 30, 2001
13.	Nationwide	PM97053013	Sept. 30, 2001
14.	GC Services	PM97053014	Sept. 30, 2001
15.	St. Hill	PM97053015	Sept. 30, 2001
16.	National Asset	PM97053016	Sept. 30, 2001
17.	Credit Bureau Accounts	PM97053017	Sept. 30, 2001

The collection agencies are paid a commission on each collection dollar they make. They are paid a flat fee for amounts collected through litigation. The Dept. of Justice is the litigation arm for the Dept. of Education.

DCS through FFEL sends a snapshot of its information to NSLDS every 30 days.

WHO USES DCS?

External User:

- Financial Institutions (Lenders and Guaranty Agencies)
- Other Federal Agencies
 - IRS

Internal Users:

- NSLDS
- DLSS

ANNUAL CONTRACT COST – OFSA FUNCTION PERCENTAGES

The annual contract costs for DCS are approximately \$16 million. The approximate percentages and annual cost for the base OFSA functions (as outlined in the OFSA Contracts/functions Matrix) are as follows:

Debt Collection	100%	\$16 million
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PLANNED ENHANCEMENTS

None

ISSUES

- Contracts expire September 30, 2001 – plan is to use GSA Financial Advisory Schedules (5.6 services (SINS) in next Acquisition Contract. Plan to reduce the number of contractors to 13 or less.